



NAS Workshop Summary Report

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Goals of the 2004 NAS Workshop

1. Obtain feedback from the scientific community on which components of alternative measures are methodologically sound
 2. Specify elements of the poverty measure for which more research is necessary
 3. Trim the number of experimental measures issued in Census Bureau reports.
- The workshop included presentations on specific elements of the NAS recommendations followed by general discussion.
 - Workshop planning group: Rebecca Blank and Timothy Smeeding (Co-chairs), David Betson, Graham Kalton, and Barbara Wolfe. Constance Citro and colleagues at the National Academies organized the workshop and I served as the rapporteur.

The Official Poverty Measure

- Background

- Resurgence of public interest in poverty issues in late 1950s and early 1960s
- In the mid 1960s, Mollie Orshansky published sets of poverty thresholds
- Office of Economic Opportunity adopted one shortly thereafter
- In 1969, the Bureau of the Budget designated the thresholds as the federal government's official statistical definition of poverty.

Construction of the Official Poverty Measure

- Two basic elements: poverty thresholds & a measure of income
 - Thresholds:
 - Based on the “Economy Food Plan” multiplied by three
 - Vary by family size and composition
 - Updated annually using the Consumer Price Index
 - Resources: based on before-tax (gross) cash income
- Measured by using the Current Population Survey (CPS)

Criticisms of the Official Poverty Measure

- Technical issues
 - Income definition does not account for near-money benefits such as food stamps
 - Does not take into account necessary expenses (taxes, health care, work)
 - Geographic price differences among regions
 - Equivalence scales
 - Unit of analysis
 - Survey used to measure poverty (CPS)
- Conceptual issue: absolute vs. relative poverty measures

National Academy of Sciences

Panel on Poverty and Family Assistance

- NAS Panel convened in the early 1990s
 - Sponsored by Department of Health and Human Services, Bureau of Labor Statistics, and Census Bureau at the request of the Congress
- May 1995 report, *Measuring Poverty: A New Approach*

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Panel on Poverty and Family Assistance

- **Family Resource Recommendations**
 - Additions: food stamps, school lunches, subsidized housing, heating assistance
 - Subtractions: taxes, work-related and medical out-of-pocket expenses (MOOP)
- **Poverty Threshold Recommendations**
 - Dollar amount for food, clothing, shelter, utilities, and a small additional amount for other needs
 - Equivalence scale changes
 - Geographic adjustment for cost of living
 - Updated using Consumer Expenditure Survey (CE) data
- **Data Base Recommendations**
 - Use the Survey of Income and Program Participation (SIPP)

Experimental Measures of Poverty at the Census Bureau

- Interagency committee convened to discuss implementation of measures.
 - As the disseminator of poverty data, the Census Bureau is involved in these efforts
- First Census Bureau report on experimental measures
 - Released in 1999. Contained six measures for 1990-1997.
- Second Census Bureau report
 - Released in October 2001 with 1999 estimates for six new measures
- Third Census Bureau report
 - Released in June 2005 (after the NAS Workshop) with 2003 estimates for some of the same measures in the second report.
- Some experimental poverty measures in annual “official” poverty report from 1999-2001, but not thereafter.

Topics Covered by the 2004 NAS Workshop

1. Setting and updating a reference family poverty threshold
2. Equivalence scales
3. Geographic adjustments to thresholds
4. Incorporating medical out-of-pocket expenses
5. Work-related expenses including child care
6. Incorporating the value of housing
7. Data issues and other miscellaneous topics

Topics Not Covered

- Planning group did not include discussion of a few broadly acceptable elements:
 - Accounting for taxes in a new measure
 - Incorporating the value of food stamps and other near-cash benefits
 - Subtracting from income any child support payments made by the payer (if the data are available).

Adopting a New Measure

- Participants overwhelmingly favored the adoption of a new poverty measure.
 - Some favored calling this a “low-income” measure
 - Most favored having just one new poverty measure rather than several, though there was also support for having data available to calculate poverty in alternative ways
 - Many expressed support for continuing to publish the current poverty measure for the foreseeable future, given its familiarity

Setting the Reference Family Threshold

- Broad support for setting the reference family threshold as recommended by the NAS panel and as implemented in recent Census Bureau reports on experimental poverty measures
 - Determine the dollar value of food, clothing, shelter, utilities, and a little more, using CE data.
 - This dollar value does not actually differ much from the reference family threshold in the current official measure.
- Little support for setting the threshold at a level that would, by design, produce a poverty rate that equaled the official poverty rate in a particular base year.

Updating the Reference Family Threshold Over Time

- Broad agreement on using the NRC panel's recommended "quasi-relative" approach for annually updating the threshold.
 - Use the latest three years of CE data on expenditures on items in the threshold
 - Thus, CE-based thresholds change as real expenditures on basic items change

Equivalence Scales

- Many favored using a three-parameter equivalence scale to adjust thresholds for families of different sizes and compositions
 - It takes into account: 1. children consume less than adults; 2. economies of scale; and 3. the first child in a single-adult family increases the scale more than the first child in a two-adult family
 - Some expressed support for research on whether more factors should be taken into account in equivalence scales, such as age of children and household production by stay-at-home parents

Geographic Adjustments to Thresholds

- Many thought that geographic price adjustments to the poverty thresholds *should not* be incorporated into a new poverty measure at this time
 - While nearly all agreed that incorporating such adjustments was appropriate in principle, many felt that methods currently available were too technically problematic for such a sensitive issue
 - Some of those most familiar with the technical issues indicated that improving these methods to a technically acceptable level is still some time away

Medical Out-of-Pocket Spending

- There was broad agreement on accounting for medical out-of-pocket spending, but no clear consensus on how to incorporate these costs
 - Much support for including expected medical out-of-pocket expenses in the poverty thresholds themselves, rather than subtracting actual expenses from resources
 - This explicitly treats medical out-of-pocket expenses as a basic need
 - Allows expenses to be adjusted for the underconsumption of medical care by the uninsured, whose need for health care may exceed actual spending
 - Criticism: the use of expected rather than actual expenses overestimates medical costs for many families and underestimates the costs for a few families with high expenses

Work-Related Expenses

- Most participants agreed that a new poverty measure should account for work expenses
 - Incorporate these expenses by assigning fixed amounts (e.g., 85 percent of median) based on a family's demographic characteristics and labor force participation.
 - This approach treats child care and work-related expenses as a basic need among families where both parents work or where a single parent works

Incorporating the Value of Housing

- General support for incorporating the value of housing
 - This makes distinctions between the income needs of owners with substantial mortgages, owners with low or no mortgages, and renters
 - Reasoning: people who own a home outright or have low mortgages have more money to spend on other basic needs (such as food and clothing) than others
- Relatively little group discussion concerning which exact method should be adopted, given the highly technical aspects of the methods available

Data and Other Topics

- Most favored the continued use of the CPS as the main data source for poverty statistics.
 - While the SIPP does a more thorough job of collecting income data, the SIPP currently has problems of attrition and timeliness of data availability
- Several participants emphasized the importance of operationalizing a single new poverty measure that is internally consistent and statistically defensible
 - Many noted that changes in one element of the measure (e.g., items included in the threshold) sometimes affect the subsequent implementation of another element (e.g., the construction of the equivalence scales)

Areas for Future Research

- Improving methods for incorporating geographic adjustments to the thresholds
- Whether equivalence scales should incorporate more than three parameters.
- Many favored eventually using SIPP data rather than CPS data as the main source for poverty statistics if problems are addressed
- Other:
 - Using of an alternative unit of analysis other than the official “family”
 - Intrahousehold resource allocation in nonfamily households
 - Feasibility and practicality of accounting for wealth and/or household production (the work of a stay-at-home parent) in a new poverty measure

Final Comments

- Technical concerns: complexity and data demands
- Substantive concerns
 - Absolute vs. relative poverty
 - Income vs. non-income based measures
- The politics of adopting a new measure by government statistical agencies and others